

## Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 IO-14 ISO-00 SP-02 USIA-15 AID-05

EB-07 NSC-05 EPG-02 TRSE-00 SS-15 STR-04 OMB-01

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XMB-04 OPIC-06 LAB-04 SIL-01 AGRE-00 /116 W

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FM AMEMBASSY WELLINGTON

TO SECSTATE WASHDC 3389

INFO USMISSION GENEVA

AMEMBASSY PAIRS

AMEMBASSY BRUSSELS

UNCLAS WELLINGTON 2281

USOECD

USEEC

E.O. 11652: N/A

TAGS: ECON, EALR, NZ

SUBJECT: LATEST NZ ECONOMIC QUARTERLY PREDICTIONS - MORE OF THE  
SAME

1. THE NEW ZEALAND INSTITUTE OF ECONOMIC RESEARCH QUARTERLY  
PREDICTIONS REPORT WHICH IS DUE TO BE RELEASED JUNE 20 (AND  
SHOULD NOT BE CITED OR REFERRED TO BEFORE THEN) SEES THE EXTERNAL  
ECONOMIC SITUATION AS DOMINATING NZ'S ECONOMIC OUTLOOK. AN  
EXPECTED FALL IN ECONOMIC ACTIVITY DURING THE YEAR ENDING MARCH  
1977 DUE TO THE REVERSAL IN THE TERMS OF TRADE AND ENSUING  
DEFLATIONARY PRESSURES DID NOT HAPPEN. BUT ECONOMIC GROWTH  
DID SLOW NOTICEABLY. REAL GNP INCREASED AN ESTIMATED ONE PERCENT.  
THE FORECAST IS FOR A "STATIC ECONOMY" FOR THE YEAR ENDING  
MARCH 1978 WITH GNP AT CURRENT PRICES RISING TO \$14,260  
MILLION.

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2. BALANCE OF PAYMENTS WILL DETERIORATE DUE TO NZ'S SLIGHT  
WORSENING TERMS OF TRADE. THE DEFICIT IS PREDICTED  
TO REACH \$965 MILLION FOR MARCH 1978 YEAR (VS  
\$861 MILLION FOR THE MARCH 1977 YEAR). THE OVERALL  
VOLUME OF EXPORTS ARE FORECAST TO BE STATIC FOR THE JUNE  
1978 YEAR BUT PRICES WILL FIRM. THE VOLUME OF DAIRY EXPORTS  
IS FORECAST TO DECLINE BUT THE PRICES WILL RISE WITH A FIVE

PERCENT INCREASE IN EXPORT VALUE TO 600 MILLION FOB. MEAT EXPORT PRICES ARE FORECAST TO FIRM IN THE 1977/78 SEASON, PARTICULARLY FOR BEEF DUE TO THE BETTER PRICES IN THE US. THE FOB VALUE WILL RISE TO \$860 MILLION. THE AVERAGE GREASY WOOL PRICE FOR THE 1977/78 SEASON IS ASSUMED TO BE 200 CENTS PER KILO WITH A STATIC VOLUME OF EXPORTS RESULTING IN A DECLINE IN VALUE OF WOOL EXPORTS TO \$515 MILLION FOB (FS AN ESTIMATED \$575 MILLION FOR THE 1976/77 YEAR. OTHER EXPORTS ARE FORECAST TO INCREASE TO \$1,480 MILLION IN THE JUNE 1978 YEAR.

3. IMPORT PAYMENTS FOR THE MARCH 1978 YEAR ARE FORECAST TO INCREASE 14 PERCENT. MOST OF THE INCREASE IS EXPECTED TO BE DUE TO PRICE INCREASES, THOUGH TOWARD THE END OF THE PERIOD VOLUME COULD DECLINE SLIGHTLY, DEPENDING ON THE LEVEL OF REAL ECONOMIC ACTIVITY.

4. THE RATE OF WAGE INCREASES LED TO HIGHER THAN EXPECTED ECONOMIC ACTIVITY, DESPITE POLICY SINCE MID-1975 TO REDUCE REAL WAGE AND SALARY PAYMENTS. SALARY AND WAGE PAYMENT INCREASES OF 14 AND 15 1/2 PERCENT IN THE MARCH 1976 AND 1977 YEARS ARE CITED AS EVIDENCE. FORECAST FOR MARCH 1978 YEAR IS 16 1/2 PERCENT.

5. INFLATION AND IMPROVED TERMS OF TRADE FOR PASTORAL EXPORTS WHICH ALLOWED RELATIVE BUOYANCE IN THE RURAL SECTOR (UP 32 1/2 PERCENT IN THE MARCH 1977 YEAR) PROBABLY ALSO CONTRIBUTED TO MAINTAINING AGGREGATE DEMAND AND THOUGH NOT STIMULATING THE ECONOMY, PREVENTED A DECLINE IN THE ECONOMY. THE RURAL SECTOR INCOME IS FORECAST TO DECLINE  
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14 1/2 PERCENT IN THE MARCH 1978 YEAR.

6. THOUGH COMPANY INCOME (UP 13 PERCENT DURING THE MARCH 1977 YEAR) AND ECONOMIC PERFORMANCE GENRALLY WERE FAIRLY MODEST, BECAUSE OF CERTAIN LARGE ITEMS OF CAPITAL SPENDING SUCH AS THE MAUI GAS DEVELOPMENT PROJECT AND OIL EXPLORATION, AGGREGATE PRIVATE CAPITAL EXPENDITURE WAS AT A HIGH LEVEL (17 PERCENT IN THE MARCH 1977 YEAR). EXCLUDING THESE LARGE ITEMS, REAL INVESTMENT ELSEWHERE IN THE ECONOMY - ESPECIALLY IN THE MANUFACTURING SECTOR - DECLINED.

7. FOR THE MARCH 1977 YEAR REAL GOVERNMENT SPENDING WAS REDUCED DRAMATICALLY (INCREASING ONLY 4 PERCENT DURING THE MARCH 1977 YEAR AT CURRENT PRICES), PARTICULARLY IN CAPITAL WORKS. HIGH TAX RETURNS (UP 21 1/2 PERCENT IN THE MARCH 1977 YEAR) BROUGHT DOWN THE PUBLIC SECOTR DEFICIT SIGNIFICANTLY (TO \$600 MILLION OR 12 1/2 PERCENT OF PUBLIC EXPENDITURE VS 20 1/2 PERCENT FOR THE MARCH 1976 YEAR). ALTHOUGH THIS MUST HAVE DAMPENED THE ECONOMY, THE EFFECT WILL BE MORE PREVALENT

NEXT YEAR. THE NZIER ASSUMES THE GOVERNMENT WILL ATTEMPT A SIMILAR POLICY IN THE MARCH 1978 YEAR BUT, BECAUSE OF LAST YEAR'S CUTS, THE SCOPE FOR FURTHER REDUCTION IN REAL EXPENDITURE MUST BE MORE LIMITED. INFORMATION ON PUBLIC SECTOR SPENDING MUST AWAIT THE NEXT BUDGET PRESENTATION (EXPECTED IN JULY).

8. THOUGH THE RISE IN CONSUMER PRICES HAS RECENTLY DECLINED THE ANNUAL RATE EXCEEDS 10 PERCENT. IT IS CLEAR THAT WAGE COST PRESSURES HAVE NOT ABATED AT ALL AND IMPORT COST PRESSURES WILL EASE ONLY A LITTLE SO CONDITIONS FOR MAINTAINING LOWER INFLATION DO NOT SEEM TO EXIST. INFLATION IN THE MARCH 1978 YEAR IS FORECAST AT 15 PERCENT.  
KILLGORE

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